



12 CFR Part 204

[Docket No. R-1737]

RIN 7100-AG07

Regulation D: Reserve Requirements of Depository Institutions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors of the Federal Reserve System (“Board”) is adopting amendments to Regulation D (Reserve Requirements of Depository Institutions) to eliminate references to an “interest on required reserves” rate and to an “interest on excess reserves” rate and replace them with a reference to a single “interest on reserve balances” rate; and to simplify the formula used to calculate the amount of interest paid on balances maintained by or on behalf of eligible institutions in master accounts at Federal Reserve Banks, and to make other conforming amendments. The Board requested comment on the amendments and received one comment that addressed issues not raised by the proposed amendments. Accordingly, the Board is adopting the final rule as proposed without change.

DATES: Effective July 29, 2021.

FOR FURTHER INFORMATION CONTACT: Sophia H. Allison, Senior Special Counsel, (202-452-3565), Legal Division, or Matthew

Malloy (202-452-2416), Division of Monetary Affairs, or Heather Wiggins (202-452-3674), Division of Monetary Affairs; for users of Telecommunications Device for the Deaf (TDD) only, contact 202-263-4869; Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551.

SUPPLEMENTARY INFORMATION:

I. Statutory and Regulatory Background

Section 19(b)(2) of the Federal Reserve Act (“Act”)¹ requires each depository institution to maintain reserves against its transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities within ratios prescribed by the Board for the purpose of implementing monetary policy.² The Board’s Regulation D (Reserve Requirements of Depository Institutions, 12 CFR part 204) implements the reserve requirements provisions of section 19. Effective March 24, 2020, the Board amended Regulation D to set all reserve requirement ratios for transaction accounts to zero percent.³

¹ 12 U.S.C. 461(b)(2).

² Reserve requirement ratios for nonpersonal time deposits and Eurocurrency liabilities have been set at zero percent since 1990. *See* Regulation D (Reserve Requirements of Depository Institutions), Final Rule, 55 Fed. Reg. 50540 (Dec. 7, 1990).

³ Regulation D (Reserve Requirements of Depository Institutions), Final Rule, 86 FR 8853 (February 10, 2021); *see* Regulation D (Reserve Requirements of Depository Institutions), Interim Final Rule, 85 FR 16525 (March 24, 2020).

Section 19(b)(12) of the Act provides that balances maintained by or on behalf of “eligible institutions” in accounts at Federal Reserve Banks may receive earnings to be paid by the Reserve Bank at least once each quarter, at a rate or rates not to exceed the general level of short-term interest rates.⁴ Eligible institutions include depository institutions and certain other institutions as specified in the Act.⁵ Section 19(b)(12) also provides that the Board may prescribe regulations concerning the payment of earnings on balances at a Reserve Bank.⁶

By notice published in the Federal Register on January 8, 2021, the Board requested comment on proposed amendments to Regulation D that would (1) eliminate references to an “IORR” (interest on required reserves) rate and to an “IOER” (interest on excess reserves) rate and replace them with references to a single “interest on reserve balances” (“IORB”) rate; and (2) simplify the formula used to calculate the amount of interest paid on balances maintained by or on behalf of eligible institutions in master accounts at Federal Reserve Banks and make other conforming changes.⁷ The public comment period closed on March 9, 2021.

II. Comments and Final Rule

⁴ 12 U.S.C. 461 (b)(12)(A).

⁵ *See* 12 U.S.C. 461(b)(1)(A) & (b)(12)(C); *see also* 12 CFR 204.2(y).

⁶ *See* 12 U.S.C. 461(b)(12)(B).

⁷ Regulation D (Reserve Requirements of Depository Institutions), Notice of Proposed Rulemaking, 86 FR. 1303 (Jan. 8, 2021).

The Board received one comment that addressed issues not raised by the proposed amendments. Accordingly, the Board is adopting the proposed amendments as a final rule without change.

III. Administrative Law Matters

A. Effective Date

The Administrative Procedure Act (APA) generally requires that a final rule be published in the Federal Register no less than 30 days before its effective date.⁸ The Board has determined that the final rule will become effective on July 29, 2021. The selected effective date aligns the final rule with the first day following conclusion of the preceding maintenance period in order to facilitate operational implementation of the final rule's rate and rate calculation provisions.

B. Regulatory Flexibility Act

The Regulatory Flexibility Act⁹ generally requires an agency, in connection with a proposed rule, to prepare and make available for public comment an initial regulatory flexibility analysis that describes the impact of a proposed rule on small entities. The Small Business Administration has

⁸ 5 U.S.C. 553(d).

⁹ 5 U.S.C. 601 *et seq.*

defined “small entities” to include banking organizations with total assets of less than or equal to \$600 million.

The Board did not receive any comments on its initial regulatory flexibility analysis. As discussed in the Supplementary Information above, the final rule applies to all eligible institutions regardless of size, does not impose any new recordkeeping, reporting, or compliance requirements, and does not duplicate, overlap, or conflict with any other Federal rules. In light of the foregoing, the Board certifies that the final rule will not have a significant economic impact on a substantial number of small entities.

C. Paperwork Reduction Act

The Paperwork Reduction Act of 1995¹⁰ (PRA) prohibits an agency from conducting or sponsoring an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The final rule contains no collections of information subject to the PRA.

D. Plain Language

Section 772 of the Gramm-Leach-Bliley Act¹¹ requires the Board to use “plain language” in all proposed and final rules published after January 1, 2000. The Board did not receive any comments with respect to making the proposed rule easier to understand and is adopting the final rule without change.

¹⁰ 44 U.S.C. 3506; *see* 5 CFR part 1320, appendix A.1.

¹¹ Pub. L. 106-102, section 722, 113 Stat. 1338, 1471 (1999).

List of Subjects in 12 CFR Part 204

Banks, banking, Reporting and recordkeeping requirements

Authority and Issuance

For the reasons set forth in the Supplementary Information, the Board is amending 12 CFR part 204 as follows:

PART 204 -- RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS (REGULATION D)

1. The authority citation for part 204 continues to read as follows:

Authority: 12 U.S.C. 248(a), 248(c), 371a, 461, 601, 611, and 3105.

2. In § 204.2, paragraph (aa) is revised to read as follows:

§ 204.2 Definitions.

* * * * *

(aa) *Excess balance account* means an account at a Reserve Bank pursuant to § 204.10(d) of this chapter that is established by one or more eligible institutions through an agent and in which only balances of the participating eligible institutions may at any time be maintained. An excess balance account is not a “pass-through account” for purposes of this part.

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3. In § 204.10, paragraphs (b) introductory text, (b)(1) through (3), and (d)(1) through (4) are revised to read as follows:

§ 204.10 Payment of interest on balances.

* * * * *

(b) *Payment of interest.* Interest on balances maintained at Federal Reserve Banks by or on behalf of an eligible institution is established as set forth in paragraphs (b)(1) and (2) of this section.

(1) For balances maintained in an eligible institution's master account, interest is the amount equal to the interest on reserve balances rate ("IORB rate") on a day multiplied by the total balances maintained on that day. The IORB rate is 0.10 percent.

(2) For term deposits, interest is:

(i) The amount equal to the principal amount of the term deposit multiplied by a rate specified in advance by the Board, in light of existing short-term market rates, to maintain the federal funds rate at a level consistent with monetary policy objectives; or

(ii) The amount equal to the principal amount of the term deposit multiplied by a rate determined by the auction through which such term deposits are offered.

(3) For purposes of § 204.10(b), a "master account" is the record maintained by a Federal Reserve Bank of the debtor-creditor relationship between the Federal Reserve Bank and a single eligible institution with respect to deposit balances of the eligible institution that are maintained with the Federal Reserve Bank. A "master account" is not a "term deposit," an "excess balance account," a "joint account," or any deposit account

maintained with a Federal Reserve Bank governed by an agreement that states the account is not a master account.

* * * * *

(d) * * *

(1) A Reserve Bank may establish an excess balance account for eligible institutions under the provisions of this paragraph (d).

Notwithstanding any other provisions of this part, the balances maintained by eligible institutions in an excess balance account represent a liability of the Reserve Bank solely to those participating eligible institutions.

(2) The participating eligible institutions in an excess balance account shall authorize another institution to act as agent of the participating institutions for purposes of general account management, including but not limited to transferring the balances of participating institutions in and out of the excess balance account. An excess balance account must be established at the Reserve Bank where the agent maintains its master account, unless otherwise determined by the Board. The agent may not commingle its own funds in the excess balance account.

(3) Balances maintained in an excess balance account may not be used for general payments or other activities.

(4) Interest on balances of eligible institutions maintained in an excess balance account is the amount equal to the IORB rate in effect on a day multiplied by the total balances maintained on that day.

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By order of the Board of Governors of the Federal Reserve System.

Ann Misback,
Secretary of the Board.

Billing Code 6210-01-P

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